



Fairview City
Sanpete County, Utah

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2006

Fairview City
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June 30, 2006

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LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

October 6, 2006

Honorable Mayor
Members of the City Council
City of Fairview, Utah

Mayor and Council Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fairview City, as of and for the year ended June 30, 2006, which collectively comprise Fairview City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fairview City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fairview City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the general fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on pages 3-11 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 2006, on our consideration of Fairview City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fairview City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Larson & Company".

Larson & Company
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Fairview City
Management's Discussion and Analysis
June 30, 2006

As management of Fairview City (the City), we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- Total net assets for the City as a whole increased by \$629,345.
- Total unrestricted net assets for the City as a whole increased by \$323,098.
- Total net assets for governmental activities increased by \$146,132.
- Total net assets for business-type activities increased by \$483,213.

BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of Fairview City. The basic financial statements comprise three components: (1) government wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The statement of activities is presented on two pages. The first page reports the extent to which each function or program is self-supporting through fees and intergovernmental aid. The second page identifies the general revenues of the City available to cover any remaining costs of the functions or programs.

Fairview City
Management's Discussion and Analysis
June 30, 2006

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the government fund balance sheet and the government fund statement of the revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City's maintains one major governmental fund, the general fund.

The City adopts an annual appropriated budget for its general and cemetery perpetual care funds. A budgetary comparison schedule has been provided to demonstrate legal compliance with the adopted budget for the general fund.

The basic governmental fund financial statements can be found later in this report; see Table of Contents.

Proprietary funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses three enterprise funds to account for the operations of the water, sewer, and electric utilities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds are considered major funds of the City.

The proprietary fund financial statements can be found later in this report; see Table of Contents.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are reported later in this report; see Table of Contents.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City.

Fairview City
Management's Discussion and Analysis
June 30, 2006

FINANCIAL ANALYSIS

Fairview City's Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	<u>Total</u>
	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>
Current and other assets	\$ 366,081	234,148	427,292	563,837	793,372	797,985
Net capital assets	<u>1,179,316</u>	<u>1,122,743</u>	<u>11,081,708</u>	<u>10,764,328</u>	<u>12,261,024</u>	<u>11,887,071</u>
Total assets	<u>1,545,397</u>	<u>1,356,891</u>	<u>11,508,999</u>	<u>11,328,165</u>	<u>13,054,396</u>	<u>12,685,056</u>
Current liabilities	120,551	114,808	293,947	458,716	414,498	573,524
Long-term liabilities	<u>337,407</u>	<u>300,777</u>	<u>5,381,508</u>	<u>5,519,117</u>	<u>5,718,915</u>	<u>5,819,894</u>
Total liabilities	<u>457,958</u>	<u>415,585</u>	<u>5,675,455</u>	<u>5,977,834</u>	<u>6,133,413</u>	<u>6,393,418</u>
Net assets:						
Capital assets, net of debt	806,316	784,743	5,562,836	5,117,415	6,369,152	5,902,158
Restricted	128,264	140,688	187,570	335,892	315,834	476,580
Unrestricted	<u>152,858</u>	<u>15,876</u>	<u>83,138</u>	<u>(102,976)</u>	<u>235,997</u>	<u>(87,101)</u>
Total net assets	<u>\$1,087,439</u>	<u>941,307</u>	<u>5,833,544</u>	<u>5,350,331</u>	<u>6,920,983</u>	<u>6,291,638</u>

As noted earlier, net assets may serve over time as a useful indicator of financial position. Total assets exceeded total liabilities at the close of the year by \$6,920,983, an increase of \$629,344 from the previous year. This change is equivalent to the net income for the year, in private sector terms.

Total unrestricted net assets at the end of the year are \$235,997, which represents an increase of \$323,098 from the previous year. Unrestricted net assets are those available to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The amount of current and other assets represent the amounts of cash and receivables on hand at the end of each year. Other liabilities are the amounts of current and other assets due, at year end, for goods and services acquired.

Changes in capital assets are the result of the difference, in the current year, of the cost of acquisition of capital assets and any depreciation charges on capital assets. Change in long-term debt is the difference in the amount of debt issued and that which has been paid during the year.

Fairview City
Management's Discussion and Analysis
June 30, 2006

FINANCIAL ANALYSIS (continued)

Fairview City's Changes in Net Assets:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	<u>Total</u>
	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>
Program revenues:						
Charges for services	\$195,289	171,959	1,218,362	916,817	1,413,652	1,088,776
Operating grants	61,116	52,496	-	-	61,116	52,496
Capital grants	20,000	26,835	480,316	2,562,081	500,316	2,588,916
General revenues:						
Property taxes	73,544	66,542	-	-	73,544	66,542
Sales tax	168,209	125,811	-	-	168,209	125,811
Other taxes	1,126	(162)	-	-	1,126	(162)
Other revenues	<u>7,746</u>	<u>21,363</u>	<u>4,702</u>	<u>19,714</u>	<u>12,447</u>	<u>41,077</u>
Total revenues	<u>527,031</u>	<u>464,845</u>	<u>1,703,379</u>	<u>3,498,611</u>	<u>2,230,410</u>	<u>3,963,456</u>
Expenses:						
General government	115,404	225,181	-	-	115,404	225,181
Public safety	155,244	190,153	-	-	155,244	190,153
Highways and improvements	61,739	34,107	-	-	61,739	34,107
Parks and recreation	86,722	93,151	-	-	86,722	93,151
Interest on long-term debt	7,945	8,209	-	-	7,945	8,209
Water	-	-	236,308	226,534	236,308	226,534
Sewer	-	-	396,703	57,550	396,703	57,550
Electric	-	-	<u>541,000</u>	<u>620,990</u>	<u>541,000</u>	<u>620,990</u>
Total expenses	<u>427,054</u>	<u>550,801</u>	<u>1,174,012</u>	<u>905,073</u>	<u>1,601,066</u>	<u>1,455,875</u>
Excess (deficiency) before transfers and contributions	99,977	(85,957)	529,368	2,593,538	629,344	2,507,581
Transfers	<u>46,155</u>	<u>183,485</u>	<u>(46,155)</u>	<u>(183,485)</u>	-	-
Change in net assets	<u>\$146,132</u>	<u>97,528</u>	<u>483,213</u>	<u>2,410,053</u>	<u>629,344</u>	<u>2,507,581</u>

Total revenues decreased by \$1,733,046, while total expenses increased by \$145,191. The total net increase for the year of \$629,344 is a decrease from the previous year of \$1,878,237.

Governmental activities revenues of \$527,031 is an increase of \$62,186 from the previous year. This is primarily a result of a substantial increase in sales and use taxes. Governmental activities expenses of \$427,054 is a decrease of \$123,747 from the previous year. This is a result of a decrease in administrative and fire expenses.

Business-type activities revenue of \$1,703,379 is a decrease of \$1,795,232 from the previous year. This is a result of a Utah Water Quality Grant and a RUS grant received during the prior year. Business-type activities expenses of \$1,174,012 is an increase of \$268,938 from the previous year. This is a primarily a result of increases in sewer collection expenses during the year.

Fairview City
Management's Discussion and Analysis
June 30, 2006

BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

Some of the more significant changes in fund balances and fund net assets and any restrictions on those amounts is described below:

General Fund

The fund balance of \$226,074 reflects an increase of \$115,882 from the previous year. Total revenues increased by \$31,108. Tax revenues, including property taxes and sales taxes increased by \$50,689. Intergovernmental revenue decreased by \$18,215. All other revenues decreased by \$1,366.

Total expenditures decreased by \$27,457. Expenditure changes, by department, excluding capital outlay: administrative decreased by \$105,757, public safety (fire and police) decreased by \$43,299, parks and recreation increased by \$86,669, and streets and highways increased by \$32,993. Total expenditures for capital outlay for all departments increased by \$93,821.

Net assets restricted for recreation and class C roads are \$45,593.

Water Fund

Amount restricted for debt service is \$55,922. Unrestricted net assets are a deficit of \$45,541.

Sewer Fund

Net assets restricted for construction and debt service amount to \$131,648. Unrestricted net assets are a deficit in the amount of \$319,689.

Electric Fund

There are no restricted net assets at year end in the electric fund. Unrestricted net assets amount to \$448,368.

GENERAL FUND BUDGETARY HIGHLIGHTS

Expenditures for the current year, excluding transfers, were originally budgeted in the amount of \$448,675. This amount was amended in the final budget to \$540,675.

The sale of bonds for the year were originally budgeted in the amount of \$0. The amount was amended in the final budget to \$92,000.

Fairview City
Management's Discussion and Analysis
June 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

Fairview City's Capital Assets (net of depreciation):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	<u>Total</u>
	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Prior Year</u>
Net Capital Assets:						
Land and water rights	\$ 168,310	75,160	175,066	10,438	343,375	85,597
Buildings and improvements	722,810	713,790	3,409,524	65,137	4,132,334	778,927
Equipment	288,197	319,425	1,124,867	74,307	1,413,063	393,732
Infrastructure	-	-	6,374,409	2,189,950	6,374,409	2,189,950
Work in progress	-	14,369	-	8,424,496	-	8,438,865
Totals	<u>\$1,179,316</u>	<u>1,122,743</u>	<u>11,083,865</u>	<u>10,764,328</u>	<u>12,263,181</u>	<u>11,887,071</u>

The total amount of capital assets, net of depreciation, of \$12,263,181 is an increase of \$376,110 from the previous year.

Governmental activities capital assets, net of depreciation, of \$1,179,316 is an increase of \$56,573 from the previous year.

Business-type activities capital assets, net of depreciation, of \$11,083,865 is a n increase of \$319,537 from the previous year.

Additional information regarding capital assets may be found in the notes to financial statements.

Fairview City
Management's Discussion and Analysis
June 30, 2006

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Fairview City's Outstanding Debt - Revenue Bonds

	Current <u>Year</u>	Previous <u>Year</u>
Governmental activities:		
GLTD GO Bond	\$ 120,000	140,000
GLTD Class C Bond	161,000	198,000
GLTD Property bond 2006	92,000	-
Total governmental	<u>373,000</u>	<u>338,000</u>
Business-type activities:		
Water:		
GMAC Bond	34,615	37,483
BWR 2000A	631,000	650,000
RDA Bond	552,808	559,430
Sewer:		
Utah WQ 2004A	2,335,000	2,400,000
PCIFB 2004B	967,000	1,000,000
USDA RUS 2004C	748,837	1,000,000
USDA RUS 2004D	249,612	-
Total business-type	<u>5,518,872</u>	<u>5,646,913</u>
Total outstanding debt	<u>\$5,891,872</u>	<u>5,984,913</u>

Additional information regarding the long-term liabilities may be found in the notes to financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No significant economic changes that would affect the City are expected for the next year. Budgets have been set on essentially the same factors as the current year being reported.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Fairview City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Office of the City Recorder, 21 East 100 North, Fairview, UT, 84648.

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BASIC FINANCIAL STATEMENTS

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Fairview City
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 274,059	51,571	325,630	27,633
Receivables, net	101,022	105,853	206,874	-
Interfund	(9,000)	9,000	-	-
Other assets	-	44,382	44,382	-
Total current assets	<u>366,081</u>	<u>210,806</u>	<u>576,886</u>	<u>27,633</u>
Non-current assets:				
Restricted cash and cash equivalents	-	216,486	216,486	75,138
Capital assets:				
Not being depreciated	168,310	175,066	343,375	-
Net of accumulated depreciation	<u>1,011,007</u>	<u>10,906,642</u>	<u>11,917,649</u>	<u>10,107</u>
Total non-current assets	<u>1,179,316</u>	<u>11,298,194</u>	<u>12,477,510</u>	<u>68,092</u>
TOTAL ASSETS	<u>1,545,397</u>	<u>11,508,999</u>	<u>13,054,396</u>	<u>112,878</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	15,748	151,184	166,932	-
Customer deposits	-	5,400	5,400	-
Accrued interest payable	899	-	899	-
Deferred revenues	45,904	-	45,904	-
Revenue bonds due within one year	<u>58,000</u>	<u>137,363</u>	<u>195,363</u>	-
Total current liabilities	<u>120,551</u>	<u>293,947</u>	<u>414,498</u>	-
Non-current liabilities:				
Compensated absences	22,407	-	22,407	-
Revenue bonds due after one year	<u>315,000</u>	<u>5,381,508</u>	<u>5,696,508</u>	-
Total non-current liabilities	<u>337,407</u>	<u>5,381,508</u>	<u>5,718,915</u>	-
TOTAL LIABILITIES	<u>457,958</u>	<u>5,675,455</u>	<u>6,133,413</u>	-
NET ASSETS				
Invested in capital assets, net of related debt	806,316	5,562,836	6,369,152	10,107
Restricted for:				
Recreation	6,436	-	6,436	-
Debt service requirements	-	167,252	167,252	-
Class C roads	39,157	-	39,157	-
Construction	-	20,318	20,318	-
Cemetery	82,671	-	82,671	-
Museum	-	-	-	55,269
Unrestricted	<u>152,858</u>	<u>83,138</u>	<u>235,997</u>	<u>47,502</u>
TOTAL NET ASSETS	<u>1,087,439</u>	<u>5,833,544</u>	<u>6,920,983</u>	<u>112,878</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,545,397</u>	<u>11,508,999</u>	<u>13,054,396</u>	<u>112,878</u>

The notes to the financial statements are an integral part of this statement.

Fairview City
Statement of Activities
For the Year Ended June 30, 2006

<u>Function/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Primary government:					
Governmental activities:					
General government:					
Justice court	\$ 17,019	15,408	-	-	(1,611)
Administration	101,015	6,641	-	-	(94,374)
Public safety:					
Police	85,367	-	1,230	-	(84,137)
Fire	69,877	46,427	-	-	(23,449)
Highways and public improvements:					
Street and highways	37,339	-	59,886	20,000	42,547
Waste disposal	24,400	26,703	-	-	2,303
Parks and recreation:					
Parks	13,802	540	-	-	(13,262)
Recreation	65,635	77,933	-	-	12,297
Cemetery	7,285	23,745	-	-	16,460
Interest on long-term debt	7,945	-	-	-	(7,945)
Total governmental activities	<u>429,684</u>	<u>197,397</u>	<u>61,116</u>	<u>20,000</u>	<u>(151,171)</u>
Business-type activities:					
Water	236,308	199,016	-	8,100	(29,192)
Sewer	396,703	195,449	-	470,469	269,214
Electric	541,000	823,897	-	1,747	284,645
Total business-type activities	<u>1,174,012</u>	<u>1,218,362</u>	<u>-</u>	<u>480,316</u>	<u>524,666</u>
Total primary government	<u>\$1,603,696</u>	<u>1,415,760</u>	<u>61,116</u>	<u>500,316</u>	<u>373,495</u>
Component unit:					
Fairview museum	<u>60,360</u>	<u>49,478</u>	<u>20,705</u>	<u>-</u>	<u>9,823</u>

The notes to the financial statements are an integral part of this statement.

Fairview City
Statement of Activities (continued)
For the Year Ended June 30, 2006

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>	Component <u>Unit</u>
CHANGE IN NET ASSETS:				
Net (expense) revenue (from previous page)	\$ <u>(151,171)</u>	<u>524,666</u>	<u>373,495</u>	<u>9,823</u>
General revenues:				
Property taxes	48,621	-	48,621	-
In lieu of property tax	24,923	-	24,923	-
Sales taxes	168,209	-	168,209	-
Other taxes	1,126	-	1,126	-
Unrestricted investment earnings	4,883	4,702	9,585	263
Miscellaneous	<u>3,384</u>	<u>-</u>	<u>3,384</u>	<u>6,483</u>
Total general revenues and special items	<u>251,148</u>	<u>4,702</u>	<u>255,849</u>	<u>6,746</u>
Transfers	<u>46,155</u>	<u>(46,155)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>297,303</u>	<u>(41,453)</u>	<u>255,849</u>	<u>6,746</u>
Change in net assets	146,132	483,213	629,344	16,568
Net assets - beginning	<u>941,307</u>	<u>5,350,331</u>	<u>6,291,638</u>	<u>96,310</u>
Net assets - ending	<u>\$1,087,439</u>	<u>5,833,544</u>	<u>6,920,983</u>	<u>112,878</u>

The notes to the financial statements are an integral part of this statement.

Fairview City
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$274,059	-	274,059
Accounts receivable, net:			
Customers	5,265	-	5,265
Property taxes	53,676	-	53,676
Due from other governments	42,081	-	42,081
Interfund	<u>32,645</u>	<u>87,355</u>	<u>120,000</u>
TOTAL ASSETS	<u>407,726</u>	<u>87,355</u>	<u>495,081</u>
LIABILITIES:			
Accounts payable	15,748	-	15,748
Due to other funds	120,000	9,000	129,000
Deferred revenues	<u>45,904</u>	<u>-</u>	<u>45,904</u>
TOTAL LIABILITIES	<u>181,652</u>	<u>9,000</u>	<u>190,652</u>
FUND BALANCES:			
Reserved for:			
Recreation	6,436	-	6,436
Roads	39,157	-	39,157
Cemetery	-	82,671	82,671
Unreserved, reported in:			
General fund	180,481	-	180,481
Redevelopment fund	-	(30,159)	(30,159)
Cemetery fund	-	32,933	32,933
Capital projects fund	<u>-</u>	<u>(7,091)</u>	<u>(7,091)</u>
TOTAL FUND BALANCES	<u>226,074</u>	<u>78,355</u>	<u>304,428</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$407,726</u>	<u>87,355</u>	<u>495,081</u>

The notes to the financial statements are an integral part of this statement.

Fairview City
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
 For the Year Ended June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes	\$242,880	-	242,880
Licenses and permits	3,560	-	3,560
Intergovernmental revenues	61,116	20,000	81,116
Charges for services	178,430	-	178,430
Fines and forfeitures	15,408	-	15,408
Interest	2,399	2,484	4,883
Miscellaneous revenue	<u>3,384</u>	<u>-</u>	<u>3,384</u>
Total revenues	<u>507,177</u>	<u>22,484</u>	<u>529,661</u>
EXPENDITURES:			
Current:			
General government	110,000	-	110,000
Public safety	118,560	-	118,560
Highways and public improvements	57,517	-	57,517
Parks, recreation and public property	65,313	-	65,313
Capital outlay	112,963	11,328	124,292
Debt service:			
Principal	57,000	-	57,000
Interest	<u>8,096</u>	<u>-</u>	<u>8,096</u>
Total expenditures	<u>529,450</u>	<u>11,328</u>	<u>540,778</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	(22,273)	11,156	(11,117)
Other Financing Sources and (Uses):			
Sale of bonds	92,000	-	92,000
Transfers in	46,155	-	46,155
Transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and (uses)	<u>138,155</u>	<u>-</u>	<u>138,155</u>
Net Change in Fund Balances	115,882	11,156	127,038
Fund balances - beginning of year	<u>110,192</u>	<u>67,199</u>	<u>177,391</u>
Fund Balances - end of year	<u>\$226,074</u>	<u>78,355</u>	<u>304,428</u>

The notes to the financial statements are an integral part of this statement.

Fairview City
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**
June 30, 2006

Total Fund Balances for Governmental Funds	<u>\$ 304,428</u>
---	--------------------------

Total net assets reported for governmental activities in the statement
is different because:

Capital assets used in governmental funds are not financial resources and
therefore are not reported in the funds.

Capital assets, at cost	1,696,704
Less accumulated depreciation	<u>(517,387)</u>
Net capital assets	<u>1,179,316</u>

Long-term debt, for funds other than enterprise funds, are recorded in
the government-wide statements but not in the fund statements.

General long-term debt	(281,000)
-------------------------------	------------------

Long-term debt issued	(92,000)
------------------------------	-----------------

Interest accrued but not yet paid on general long-term debt	(899)
--	--------------

Compensated absences	<u>(22,407)</u>
-----------------------------	------------------------

Total Net Assets of Governmental Activities	<u>\$1,087,439</u>
--	---------------------------

The notes to the financial statements are an integral part of this statement.

Fairview City
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	<u>\$127,038</u>
---	-------------------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with a material cost are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expenses.

Capital outlays	124,292
Depreciation expense	<u>(67,719)</u>
Net	<u>56,573</u>

Issuance of long-term debt provides current financial resources in the governmental fund but increases long-term liabilities in the statement of net assets.

Long-term debt issued	(92,000)
------------------------------	-----------------

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Long-term debt principal repayments	57,000
--	---------------

Accrued interest for long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities.

Changes in accrued interest	<u>151</u>
------------------------------------	-------------------

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in government funds.

Change in compensated absences liability	<u>(2,630)</u>
---	-----------------------

Change in Net Assets of Governmental Activities	<u>\$146,132</u>
--	-------------------------

The notes to the financial statements are an integral part of this statement.

Fairview City
STATEMENT OF NET ASSETS - PROPRIETARY FUND
June 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Total</u>
ASSETS:				
Current assets:				
Cash and cash equivalents	-	-	51,571	51,571
Accounts receivable, net	\$ 14,810	21,183	69,860	105,853
Due from other funds	-	-	329,065	329,065
Other current assets	-	7,336	37,046	44,382
Total current assets	<u>14,810</u>	<u>28,519</u>	<u>487,543</u>	<u>530,871</u>
Non-current assets:				
Restricted cash and cash equivalents	55,922	155,164	5,400	216,486
Capital assets:				
Not being depreciated	4,488	164,628	5,950	175,066
Net of accumulated depreciation	<u>1,849,094</u>	<u>8,690,840</u>	<u>366,708</u>	<u>10,906,642</u>
Total non-current assets	<u>1,909,504</u>	<u>9,010,632</u>	<u>378,058</u>	<u>11,298,194</u>
Total assets	<u>1,924,313</u>	<u>9,039,152</u>	<u>865,600</u>	<u>11,829,065</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	307	111,702	39,175	151,184
Due to other funds	60,043	260,022	-	320,065
Accrued interest payable	-	-	-	-
Customer deposits	-	-	5,400	5,400
Revenue bonds, current portion	<u>29,816</u>	<u>107,548</u>	<u>-</u>	<u>137,363</u>
Total current liabilities	<u>90,166</u>	<u>479,272</u>	<u>44,575</u>	<u>614,012</u>
Non-current liabilities:				
Revenue bonds, long-term	<u>1,188,607</u>	<u>4,192,901</u>	<u>-</u>	<u>5,381,508</u>
Total non-current liabilities	<u>1,188,607</u>	<u>4,192,901</u>	<u>-</u>	<u>5,381,508</u>
Total liabilities	<u>1,278,773</u>	<u>4,672,173</u>	<u>44,575</u>	<u>5,995,521</u>
NET ASSETS:				
Invested in capital assets, net of related debt	635,159	4,555,020	372,658	5,562,836
Restricted for:				
Construction	-	20,318	-	20,318
Debt service	55,922	111,330	-	167,252
Unrestricted	<u>(45,541)</u>	<u>(319,689)</u>	<u>448,368</u>	<u>83,138</u>
Total net assets	<u>645,540</u>	<u>4,366,978</u>	<u>821,026</u>	<u>5,833,544</u>
Total liabilities and net assets	<u>\$1,924,313</u>	<u>9,039,152</u>	<u>865,600</u>	<u>11,829,065</u>

The notes to the financial statements are an integral part of this statement.

Fairview City
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
June 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Total</u>
Operating income:				
Charges for services	\$199,016	195,449	821,579	1,216,044
Other operating income	-	-	2,318	2,318
Total operating income	<u>199,016</u>	<u>195,449</u>	<u>823,897</u>	<u>1,218,362</u>
Operating expenses:				
Personal services	82,143	85,132	152,656	319,930
Utilities	7,378	52,755	300,080	360,212
Repairs and maintenance	10,060	19,774	11,243	41,076
Other supplies and expenses	18,360	14,952	35,721	69,033
Depreciation expense	91,642	216,803	41,301	349,745
Total operating expense	<u>209,582</u>	<u>389,415</u>	<u>541,000</u>	<u>1,139,997</u>
Net operating income (loss)	<u>(10,566)</u>	<u>(193,966)</u>	<u>282,898</u>	<u>78,366</u>
Non-operating income (expense):				
Impact fees	8,100	17,759	1,747	27,606
Interest income	-	4,672	30	4,702
Interest on long-term debt	(26,726)	(7,289)	-	(34,015)
Total non-operating income (expense)	<u>(18,626)</u>	<u>15,142</u>	<u>1,777</u>	<u>(1,707)</u>
Income (loss) before contributions and transfers	<u>(29,192)</u>	<u>(178,824)</u>	<u>284,675</u>	<u>76,658</u>
Capital contributions	-	452,710	-	452,710
Transfers in	-	31,000	-	31,000
Transfers (out)	(31,000)	-	(46,155)	(77,155)
Change in net assets	<u>(60,192)</u>	<u>304,885</u>	<u>238,520</u>	<u>483,213</u>
Net assets, beginning	<u>705,732</u>	<u>4,062,093</u>	<u>582,506</u>	<u>5,350,331</u>
Net assets, ending	<u>\$645,540</u>	<u>4,366,978</u>	<u>821,026</u>	<u>5,833,544</u>

The notes to the financial statements are an integral part of this statement.

Fairview City
STATEMENT OF CASH FLOWS
For the year ending June 30, 2006

	Water Fund	Sewer Fund	Electric Fund	Total
Cash flows from operating activities:				
Cash received from customers - service	\$202,869	176,435	810,739	1,190,043
Cash paid to suppliers	(35,491)	(91,311)	(373,159)	(499,961)
Cash paid to employees	(82,143)	(85,132)	(152,656)	(319,930)
Net cash provided (used) in operating activities	<u>85,236</u>	<u>(7)</u>	<u>284,923</u>	<u>370,152</u>
Cash flows from noncapital financing activities:				
Change in customer deposits	-	-	(58,086)	(58,086)
Net interfund activity	(9,611)	252,489	(289,033)	(46,155)
Net cash provided (used) in noncapital financing activities	<u>(9,611)</u>	<u>252,489</u>	<u>(347,119)</u>	<u>(104,241)</u>
Cash flows from capital and related financing activities:				
Cash received from bond issues	-	-	-	-
Cash received from capital grants	-	452,710	-	452,710
Cash from impact fees	8,100	17,759	1,747	27,606
Cash payments for capital assets	-	(784,025)	(177)	(784,202)
Cash payments for long-term debt	(28,490)	(99,551)	-	(128,041)
Cash payments for long-term debt interest	(26,726)	(21,206)	-	(47,932)
Net cash provided (used) in capital and related financing activities	<u>(47,116)</u>	<u>(434,313)</u>	<u>1,570</u>	<u>(479,859)</u>
Cash flows from investing activities:				
Cash received from interest earned	-	4,672	30	4,702
Net cash provided (used) in investing activities	<u>-</u>	<u>4,672</u>	<u>30</u>	<u>4,702</u>
Net increase (decrease) in cash	28,509	(177,160)	(60,596)	(209,246)
Cash balance, beginning	<u>27,413</u>	<u>332,324</u>	<u>117,567</u>	<u>477,303</u>
Cash balance, ending	<u>\$55,922</u>	<u>155,164</u>	<u>56,971</u>	<u>268,057</u>
Cash reported on the balance sheet:				
Cash and cash equivalents	-	-	51,571	51,571
Non-current restricted cash	\$55,922	155,164	5,400	216,486
Total cash and cash equivalents	<u>\$55,922</u>	<u>155,164</u>	<u>56,971</u>	<u>268,057</u>

Continued on next page

The notes to the financial statements are an integral part of this statement.

Fairview City
STATEMENT OF CASH FLOWS, continued
For the year ended June 30, 2006

**Reconciliation of Operating Income
to Net Cash Provided from Operating Activity:**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric</u>	<u>Total</u>
Net operating income (expense)	\$(10,566)	(193,966)	282,898	78,366
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities:				
Depreciation and amortization	91,642	216,803	41,301	349,745
Changes in assets and liabilities:				
(Increase) decrease in receivables	3,853	(19,013)	(13,159)	(28,319)
(Increase) decrease in inventory	-	-	(36,686)	(36,686)
(Increase) decrease in prepayments	-	(7,336)	(360)	(7,696)
Increase (decrease) in payables	<u>307</u>	<u>3,506</u>	<u>10,930</u>	<u>14,743</u>
Net cash provided in operating activity	<u>\$85,236</u>	<u>(7)</u>	<u>284,923</u>	<u>370,152</u>

The notes to the financial statements are an integral part of this statement.

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

Fairview City, (the City), a municipal corporation located in Sanpete County, Utah, operates under a Mayor-Council form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Fairview Museum - Fairview City has oversight responsibility for the Fairview Museum. The museum financial data is included herein as a discretely presented component. Discretely presented component units are reported in a separate column in the combined financial statement to emphasize they are legally separate from the City. Financial statements for the Museum may be obtained by contacting a member of the Board of Directors of the Museum.

1-B. Government-wide and fund financial statements

Government-wide Financial Statements

The government-wide financial statements, consisting of the statement of net assets and the statement of changes in net assets report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated. All expenses are included in the applicable function. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, if any, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statement.

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1-C. Measurement focus, basis of accounting and financial statement presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments or payments to the general fund by other funds for providing administrative and billing services for such funds. Reimbursements are reported as reductions to expenses. Proprietary and any fiduciary fund financial statements are also reported using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when the grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments, if any, receivable within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating income and expense reported in proprietary fund financial statements include those revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services, including administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

**1-C. Measurement focus, basis of accounting, and financial statement presentation
(continued)**

Policy regarding use of restricted resources

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities. *Restricted assets, non-current* reports assets restricted for acquisition or construction of non-current assets, or are restricted for liquidation of long-term debt.

1-D. Fund types and major funds

Governmental funds

The City reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following non-major governmental funds:

The *redevelopment fund* accounts for revenues and expenditures of the redevelopment agency.

The *capital projects fund* accounts for revenues and expenditures of the City's capital projects.

The *permanent fund* accounts for revenues and expenditures of the cemetery.

Proprietary funds

The City reports the following major proprietary funds:

The *water fund* is used to account for the activities regarding culinary water distribution.

The *sewer fund* accounts for the activities of the sewer system.

The *electric fund* accounts for the activities of the electric utilities.

1-E. Assets, Liabilities, and Net Assets or Equity

1-E-1. Deposit and Investments

Investments are reported at fair value. Deposits are reported at cost, which approximates fair value. Investments of the City are accounts at the Utah Public Treasurers Investments' Fund. Additional information is contained in Note 2.

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-2. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

1-E-3. Receivables and Payables

Accounts receivable other than property taxes and intergovernmental receivables are from customers primarily for utility services. Property tax and intergovernmental receivables are considered collectible. Customer accounts are reported net of an allowance for uncollectible accounts. The allowance amount is estimated using accounts receivable past due more than 90 days.

During the course of operations, there may be transactions occur between funds that are representative of lending/borrowing arrangements outstanding at year-end. These are reported as either *due to or due from other funds*.

Property taxes are assessed and collected for the City by Sanpete County and remitted to the City shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

1-E-4. Restricted Assets

In accordance with certain revenue bond covenants, resources may be required to be set aside for the repayment of such bonds, and, on occasion, for the repair and maintenance of the assets acquired with the bond proceeds. These resources are classified as restricted assets on the balance sheet because of their limited use. Most capital grant agreements mandate that grant proceeds be spent only on capital assets. Unspent resources of this nature are also classified as restricted. The limited use resources described above involve a reported restriction of both cash and net assets.

Unspent proceeds of bonds issued to finance capital assets are also reported as restricted cash

1-E-5. Inventories and Prepaid items

Inventories in governmental funds are not reported. These consist of immaterial amounts of expendable supplies for consumption. Such supplies are acquired as needed. Proprietary fund inventories, where material, are stated at the lower of cost or market, using the first-in, first-out basis.

Prepaid items record payments to vendors that benefit future reporting and are reported on the consumption basis. Both inventories and prepayments are similarly reported in government-wide and fund financial statements.

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-6. Capital Assets

Capital assets includes property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual significant cost and an estimated useful life in excess of two years. Such assets are recorded at historical cost or at estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure is depreciated.

The cost of normal maintenance and repairs that does not add to the value of an asset or materially extend the assets' life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Upon retirement or disposition of capital assets, the cost and related accumulated depreciation are removed from the respective accounts. Depreciation of capital assets is computed using the straight-line method over their estimated useful lives.

Property, plant, and equipment of the primary government, as well as the component units if any, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	30-45
Improvements	30-45
Water system	40
Sewer system	20-40
Infrastructure	30
Vehicles and equipment	5-10

1-E-7. Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are deferred and amortized over the terms of the respective bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Significant or material bond issuance costs are reported as deferred charges.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-8. Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation of legally restricted for specified purposes. The General Fund reserve for restricted purposes includes fund balance/net assets resulting from Class C road allotments restricted for eligible road maintenance. Designations of fund balance represent tentative management plans that are subject to change.

1-E-9. Prior period reclassification

Total net assets in the water fund reported in the prior period of \$5,347,690 have been increased by \$2,641 due to a correction (decrease) in long-term debt liabilities.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary data

Annual budgets are prepared and adopted by ordinance by total for each department, in accordance with State law, by the Mayor and City Council on or before June 22 for the following fiscal year beginning July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the City Council at any time during the year. A public hearing must be held prior to any proposed increase in a fund's appropriations. Budgets include activities in the General Fund. The level of the City's budgetary control (the level at which the City's expenditures cannot legally exceed appropriations) is established at the department level. Each department head is responsible for operating within the budget for their department. All annual budgets lapse at fiscal year end.

Utah State law prohibits the appropriation of unreserved General Fund balance to an amount less than 5% of the General Fund revenues. The 5% reserve that cannot be budgeted is used to provide working capital until tax revenue is received, to meet emergency expenditures, and to cover unanticipated deficits. Any unreserved General Fund balance greater than 18% of the next year's budgeted revenues must be appropriated within the following two years.

Once adopted, the budget may be amended by the City Council without hearing provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance. A public hearing must be held if the budgeted expenditures will exceed budgeted revenues and any fund balance which is available for budgeting. With the consent of the Mayor, department heads may reallocate unexpended appropriated balances from one expenditure account to another within that department during the budget year. Budgets for the General Fund are prepared on the modified accrual basis of accounting. Encumbrances are not used.

2-B. Deficit fund net assets

The Redevelopment fund has a deficit balance at year-end of \$30,159, there was no change from the previous year. The Capital Projects fund has a deficit balance at year-end of \$7,091 compared to the previous year-end deficit of \$15,763.

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 - DETAILED NOTES

3-A. Deposits and investments

Cash and investments as of June 30, 2006 consist of the following:

	<u>Fair Value</u>
Cash on hand	\$ 600
Demand deposits - checking	204,022
Savings	257,076
Investments - PTIF	<u>80,418</u>
Total cash and investments	<u>\$542,116</u>

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Cash and cash equivalents (current)	\$325,630
Restricted cash and cash equivalents (non-current)	<u>216,486</u>
Total cash and cash equivalents	<u>\$542,116</u>

Cash equivalents and investments are carried at fair value in accordance with GASB Statement No. 31.

The Utah Money Management Act (UMMA) establishes specific requirements regarding deposits of public funds by public treasurers. UMMA requires that City funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurers' Investment Pool (PTIF). PTIF is managed by the Utah State Treasurers' investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares. The City maintains monies not immediately needed for expenditure in PTIF accounts.

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-A. Deposits and investments (continued)

Deposit and Investment Risk

The City maintains no investment policy containing any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by UMMA. The City's compliance with the provisions of UMMA addresses each of these risks.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. All deposits and investments of the City are available immediately.

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. Of the City's demand and savings deposits, \$100,000 are covered by FDIC insurance and \$437,382 are not covered by insurance.

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. This risk is addressed through the policy of investing excess monies only in PTIF.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

3-B. Receivables

The allowance policy is described in Note 1-E-3. Accounts not expected to be collected within one year are captioned as non-current receivables. Receivables as of year end for the City's funds are shown below:

	General Fund	Water	Sewer	Electric	Total
Property taxes	\$ 53,676	-	-	-	53,676
Due from other governments	42,081	-	-	-	42,081
Customers, current	6,235	17,235	24,517	80,856	128,843
Customers, non-current	-	-	-	-	-
Total receivables	101,992	17,235	24,517	80,856	224,599
Allowance for uncollectibles	(970)	(2,425)	(3,334)	(10,996)	(17,725)
Net receivables	\$101,022	14,810	21,183	69,860	206,874

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-C. Capital Assets

Capital asset activity for the governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land and rights	\$ 75,160	93,150	-	168,310
Construction in progress	<u>14,369</u>	<u>(14,369)</u>	-	-
Total capital assets, not being depreciated	<u>89,528</u>	<u>78,781</u>	<u>-</u>	<u>168,310</u>
Capital assets, being depreciated:				
Buildings	465,060	-	-	465,060
Improvements other than buildings	478,910	35,717	-	514,627
Machinery and equipment	<u>538,914</u>	<u>9,794</u>	-	<u>548,708</u>
Total capital assets, being depreciated	<u>1,482,884</u>	<u>45,511</u>	<u>-</u>	<u>1,528,394</u>
Less accumulated depreciation for:				
Buildings	113,831	9,964	-	123,795
Improvements other than buildings	116,349	16,733	-	133,081
Machinery and equipment	<u>219,489</u>	<u>41,022</u>	-	<u>260,511</u>
Total accumulated depreciation	<u>449,669</u>	<u>67,719</u>	<u>-</u>	<u>517,387</u>
Total capital assets being depreciated, net	<u>1,033,215</u>	<u>(22,208)</u>	<u>-</u>	<u>1,011,007</u>
Governmental activities capital assets, net	<u>\$1,122,743</u>	<u>56,573</u>	<u>-</u>	<u>1,179,316</u>

Depreciation expense was charged to functions/programs of the primary government governmental activities as follows:

Governmental Activities:	
General government	\$ 5,404
Public safety - police	8,563
Public safety - fire	28,121
Highways and public improvements	4,222
Parks	9,771
Recreation	8,400
Cemetery	<u>3,238</u>
Total	<u>\$67,719</u>

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-C. Capital assets, continued

Capital asset activity for business-type activities was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and water shares	\$ 10,438	164,628	-	175,066
Construction in progress	<u>8,424,496</u>	<u>(8,424,496)</u>	-	-
Total capital assets, not being depreciated	<u>8,434,934</u>	<u>(8,259,868)</u>	-	<u>175,066</u>
Capital assets, being depreciated:				
Water system	3,133,292	-	-	3,133,292
Sewer system	-	8,907,643	-	8,907,643
Electric	<u>1,268,279</u>	<u>19,350</u>	-	<u>1,287,629</u>
Total capital assets being depreciated	<u>4,401,571</u>	<u>8,926,993</u>	-	<u>13,328,564</u>
Less accumulated depreciation for:				
Water system	1,189,624	91,070	-	1,280,694
Sewer system	-	216,803	-	216,803
Electric	<u>879,620</u>	<u>41,301</u>	-	<u>920,921</u>
Total accumulated depreciation	<u>2,069,245</u>	<u>349,174</u>	-	<u>2,418,418</u>
Total capital assets being depreciated, net	<u>2,332,326</u>	<u>8,577,819</u>	-	<u>10,910,146</u>
Business-type activities capital assets, net	<u>\$10,767,260</u>	<u>317,951</u>	-	<u>11,085,211</u>

Depreciation expense was charged to functions/programs of the primary government business-type activities as follows:

Business-Type Activities:	
Water	\$ 91,642
Sewer	216,803
Electric	<u>41,301</u>
Total	<u>\$349,745</u>

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2006, is as follows:

Due to/from other funds:

<u>Payable Funds:</u>	<u>Receivable Funds:</u>		
	<u>Electric</u>	<u>Cemetery</u>	<u>Total</u>
General	-	120,000	120,000
Redevelopment agency	<u>9,000</u>	<u>-</u>	<u>9,000</u>
Total	<u>9,000</u>	<u>120,000</u>	<u>129,000</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Interfund transfers:

<u>Transfers out:</u>	<u>Transfers In:</u>		
	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Water	-	31,000	31,000
Electric	<u>46,155</u>	<u>-</u>	<u>46,155</u>
Total	<u>46,155</u>	<u>31,000</u>	<u>77,155</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-D. Long-term debt

Long-term debt activity for the year was as follows:

	<u>Original Principal</u>	<u>% Rate</u>	<u>6/30/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2006</u>	<u>Due Within One Year</u>
<u>Governmental activities:</u>							
GO Museum 1992 CIB	\$200,000	-	\$140,000	-	20,000	120,000	20,000
Tax Road Bond 2004	234,000	-	198,000	-	37,000	161,000	38,000
Land Purchase 2006	92,000	4.99	-	92,000	-	92,000	16,775
Compensated absences			<u>19,777</u>	<u>2,630</u>	<u>-</u>	<u>22,407</u>	<u>-</u>
Total governmental activity long-term liabilities			<u>\$357,777</u>	<u>94,630</u>	<u>57,000</u>	<u>395,407</u>	<u>74,775</u>

Bond debt service requirements to maturity for governmental activities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 74,775	9,055	83,830
2008	77,440	7,199	84,638
2009	79,321	4,950	84,271
2010	81,246	2,520	83,766
2011	40,219	760	40,978
2012-2016	<u>20,000</u>	<u>0</u>	<u>20,000</u>
Total	<u>\$373,000</u>	<u>24,483</u>	<u>397,483</u>

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-D. Long-term debt (continued)

	Original Principal	% Rate	6/30/2005	Additions	Reductions	6/30/2006	Due Within One Year
<u>Business-type activities:</u>							
Water fund:							
Revenue GMC	\$ 69,681	5.00	\$ 37,485	-	2,870	34,615	3,017
Revenue USDA RDA	584,000	4.50	559,308	-	6,500	552,808	6,799
Revenue 2000 A	723,000	-	650,000	-	19,000	631,000	20,000
Sewer fund:							
Anticipation Note 2004	1,000,000	3.34	1,000,000	-	1,000,000	-	-
Revenue 2004A	2,400,000	-	2,400,000	-	65,000	2,335,000	65,000
Revenue 2004B	1,000,000	-	1,000,000	-	33,000	967,000	33,000
Revenue 2004C	750,000	4.38	-	750,000	1,163	748,837	7,161
Revenue 2004D	250,000	4.38	-	250,000	388	249,612	2,387
Total business-type activity							
long-term liabilities			<u>\$5,646,793</u>	<u>1,000,000</u>	<u>1,127,921</u>	<u>5,518,872</u>	<u>137,363</u>

All bonds are revenue bonds secured by the revenues of the respective water or sewer systems. Interest costs incurred in the sewer fund on bond anticipation notes during construction are capitalized as part of the cost of related assets of the sewer fund. Total interest costs incurred was \$26,327. Total interest costs capitalized was \$26,327.

Revenue bond debt service requirements to maturity for business-type activities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 137,363	88,176	225,540
2008	144,256	85,586	229,842
2009	145,189	82,868	228,057
2010	147,166	80,015	227,181
2011	153,188	77,021	230,209
2012-2016	796,460	335,442	1,131,902
2017-2021	875,125	283,755	1,158,880
2022-2026	953,514	249,366	1,202,880
2027-2031	834,409	206,471	1,040,880
2032-2036	780,915	152,965	933,880
2037-2041	324,649	86,304	410,953
2042-2046	<u>226,637</u>	<u>24,822</u>	<u>251,459</u>
Total	<u>\$5,518,872</u>	<u>1,752,791</u>	<u>7,271,663</u>

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 4 - OTHER INFORMATION

4-A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City participates in the Utah Local Government Trust, a public agency insurance mutual, which provides coverage for property damage and general liability. The City is subject to a minimal deductible for claims. There have been no significant reductions in insurance coverage from coverage in the prior year. Amounts of settlements have not exceeded insurance coverage in any of the past three fiscal years.

4-B. Employee pension and other benefit plans

Plan Description:

The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System), which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy:

The City is required to contribute a percent of covered salary to the following system: 11.09% to the Noncontributory System. The contribution rate is the actuarially determined rate and is approved by the Board as authorized by Chapter 49.

The City's contributions to the various systems for the years ending June 30, 2006, 2005 and 2004 for the Noncontributory System were, respectively, \$31,744, \$35,889, and \$29,779. The contributions were equal to the required contributions for each year.

IRC Code Section 401k Plan:

The City participates in a 401k plan offered through the Utah State Retirement Systems. The City's contribution for the year ended June 30, 2006, based on 2.65 % of eligible wages, amounted to \$7,585.

Fairview City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

4-C. Electrical power purchase agreement

Hunter II Power Project

On June 30, 1981, the City entered into a power purchase contract with Utah Associated Municipal Power Systems (UAMPS). UAMPS is a consortium of 21 municipalities agreeing to purchase electrical power produced at the "Hunter II" power plant. In order to enable UAMPS to make the loan and to issue its bonds to pay the cost of acquiring and constructing the Hunter Project, it was necessary for UAMPS to have substantially similar binding contracts with the participants, to pledge the payments required to be made in accordance with such contracts with respect to the pre-acquisition costs to the payment of the loan and to pledge the other payments required to be made in accordance with such contracts as security for the payment of the bonds.

In the event of any default, the participant shall not be relieved of its liability for payment of the amounts in default, and UAMPS shall have the right to recover from the participant any amount in default. In enforcement of any such right of recovery, UAMPS may bring any suit, action, or proceeding in law as may be necessary or appropriate to enforce any covenant, agreement or obligation to make any payment for which provision is made in this Power Sales Contract against the participant and, from and after the effective date of the Agreement to Sell an Ownership Interest, UAMPS may, upon sixty days written notice to the participants, cease and discontinue providing all or any portion of the participant's power entitlement share.

The contract with UAMPS expires on the later of: (1) the date the principal, premium, if any, and interest on all of the UAMPS Hunter Project Revenue and Refunding Bonds have been paid, or (2) the final shut down of the Hunter Steam Electric Generating Unit No.2 (Hunter II), or (3) June 1, 2032.

The contract entitles Fairview City to approximately 1.0% of the output generated by Hunter II, and as a participant in the project is obligated for 0.997% of the debt service issued to finance the acquisition of the Hunter II project.

4-D. Contingencies

There exists some dispute related to finalization costs of the City's sewer system construction agreements. Management is of the opinion that settlement of the matters will result in no substantial or material adverse impact on the City.

REQUIRED SUPPLEMENTAL INFORMATION
(Unaudited)

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Fairview City
Notes to Required Supplementary Information
June 30, 2006

Budgetary Comparison Schedule

The Budgetary Comparison Schedule presented in this section of the report is for the City's General Fund.

Budgeting and Budgetary Control

Budgets for the General Fund are legally required and are prepared and adopted on the modified accrual basis of accounting.

Original budgets represent the revenue estimates and spending authority authorized by the City Council prior to the beginning of the year. Final budgets represent the original budget amounts plus any amendments made to the budget during the year by the Council through formal resolution. Final budgets do not include unexpended balances from the prior year because such balances automatically lapse to unreserved fund balance at the end of each year.

Current Year Excess of Expenditures over Appropriations

For the year ended June 30, 2006, spending in the general government department exceeded appropriations by \$6,949. Spending in the highways and public improvements department exceeded appropriations by \$9,461. Debt service principal exceed the budget by \$1,000 and debt service interest exceeded the budget by \$896.

Fairview City
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -BUDGET AND ACTUAL-GENERAL FUND**
 (Unaudited)
 For the Year Ended June 30, 2006

	Budgeted Original	Budgeted Final	Actual	Variance with Final Budget Under (Over)
Revenues				
Taxes	\$165,000	165,000	242,880	(77,880)
Licenses and permits	3,470	3,470	3,560	(90)
Intergovernmental revenues	62,700	62,700	61,116	1,584
Charges for services	156,700	156,700	178,430	(21,730)
Fines and forfeitures	12,000	12,000	15,408	(3,408)
Interest	950	950	2,399	(1,449)
Miscellaneous revenue	<u>1,700</u>	<u>1,700</u>	<u>3,384</u>	<u>(1,684)</u>
Total revenues	<u>402,520</u>	<u>402,520</u>	<u>507,177</u>	<u>(104,657)</u>
Expenditures				
General government	113,070	113,070	120,019	(6,949)
Public safety	135,745	135,745	118,560	17,185
Highways and public improvements	57,850	57,850	67,311	(9,461)
Parks, recreation and public property	78,810	170,810	158,463	12,347
Debt service:				
Principal	56,000	56,000	57,000	(1,000)
Interest	<u>7,200</u>	<u>7,200</u>	<u>8,096</u>	<u>(896)</u>
Total expenditures	<u>448,675</u>	<u>540,675</u>	<u>529,450</u>	<u>11,225</u>
Excess (deficiency) of Revenues over (under) Expenditures	<u>(46,155)</u>	<u>(138,155)</u>	<u>(22,273)</u>	<u>(115,882)</u>
Other Financing Sources and (Uses)				
Sale of bonds	-	92,000	92,000	-
Transfers in	46,155	46,155	46,155	-
Transfers (out)	-	-	-	-
Total other financing sources and (uses)	<u>\$46,155</u>	<u>138,155</u>	<u>138,155</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>115,882</u>	<u>(115,882)</u>
Fund balances - beginning of year			<u>110,192</u>	
Fund Balances - end of year			<u>\$226,074</u>	

**CITY OF FAIRVIEW, UTAH
INDEPENDENT AUDITORS' REPORT
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
INDEPENDENT AUDITORS' REPORT
ON LEGAL COMPLIANCE
MANAGEMENT LETTER
JUNE 30, 2006**

**CITY OF FAIRVIEW, UTAH
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FOR THE YEAR ENDED JUNE 30, 2006**

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GOVERNMENT AUDITING STANDARDS REPORT



LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 6, 2006

Honorable Mayor and
Members of the City Council
Fairview City, Utah

Mayor and Council Members:

We have audited the accompanying general-purpose financial statements of Fairview City, Utah (herein referred to as the "City"), as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated October 6, 2006.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated October 6, 2006.

This report is intended solely for the information and use of the Mayor and City Council, management, and various Federal and State funding and auditing agencies and is not intended to be and should not be used by anyone other than these specified parties.



Larson & Company
Certified Public Accountants



STATE COMPLIANCE REPORT

**INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE WITH
APPLICABLE UTAH STATE LAWS AND REGULATIONS**

October 6, 2006

Honorable Mayor and
City Council Members
Fairview City, Utah

Mayor and Council Members:

We have audited the basic financial statements of Fairview City, Utah, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. As part of our audit, we have audited Fairview City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

B & C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other General Compliance Issues
Impact Fees and Other Development Fees
Justice Courts Compliance
Asset Forfeiture

The management of Fairview City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in a separate management letter dated October 6, 2006. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Fairview City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.



Larson & Company
Certified Public Accountants

MANAGEMENT LETTER

**CITY OF FAIRVIEW, UTAH
CURRENT YEAR FINDINGS
JUNE 30, 2006**

STATE COMPLIANCE FINDINGS

FINDING – BUDGETARY COMPLIANCE

At June 30, 2006, the following departments exceeded budget by the following amounts:
General Fund:

• General Government	\$ 6,949
• Highways and Public Improvements	9,461
• Debt Service	1,896

Additionally, the amount of budgeted revenue for property tax did not match budgeted revenue on for TC-693 as required by state law.

RECOMMENDATION

We recommend that the City monitor its budget more closely to ensure that budgeted amounts are not exceeded. If necessary, budget amendments should be made after proper public hearings. Form TC-693 should be filed as quickly as feasible once the City receives the necessary information.

CITY'S RESPONSE

The City will more closely monitor its budget and make amendments when necessary to ensure budgetary compliance.

FINDING - DEFICIT FUND BALANCE

The following funds had a deficit fund balance as of June 30, 2006:

Special Revenue (RDA)	\$30,159
Capital Projects Fund	7,091

State law prohibits deficit equity balances.

RECOMMENDATION

The City should also closely monitor the expenditures in these funds for the current year to ensure that the fund's deficit equity balance is reversed. One possible solution is to make transfers from the general fund for projects expected.

CITY'S RESPONSE

The City will monitor the expenditures and look at the possibility of transfers.

CITY OF FAIRVIEW, UTAH
CURRENT YEAR FINDINGS (Continued)
JUNE 30, 2006

FINDING – MAXIMUM FUND BALANCE

State law requires that the general fund balance remain below 18% of projected revenue. The fund balance in the general fund exceeds the maximum of 18% of projected revenue.

RECOMMENDATION

We recommend that steps be taken to reduce the fund balance to come into compliance.

CITY'S RESPONSE

The City will take the steps to comply.

BOND COMPLIANCE FINDINGS

FINDING – 125% NET REVENUE BOND COMPLIANCE

Net revenues do not meet the 125% of annual debt service requirements for the 2004 Sewer Bonds.

RECOMMENDATION

The City should raise sewer rates sufficiently to meet debt service requirements.

CITY'S RESPONSE

The City will consider the rate changes necessary to comply with bond covenants.

FINDING – RESERVE FUND BOND COMPLIANCE

The 2000 Water Revenue Bond covenants require that certain amounts be deposited into reserve accounts each month until those accounts reach \$38,000 each. The total in these funds was \$55,922 as of June 30, 2006.

RECOMMENDATION

The City should set aside the necessary funds to comply with bond covenants.

CITY'S RESPONSE

The City will consider the best way to proceed to comply with bond covenants.

**CITY OF FAIRVIEW, UTAH
STATUS OF PRIOR YEAR FINDINGS
JUNE 30, 2006**

STATE COMPLIANCE FINDINGS

FINDING – BUDGETARY COMPLIANCE

At June 30, 2005, the following departments exceeded budget by the following amounts:

General Fund:

• General Government	\$ 24,866
• Public Safety	7,359
• Debt Service - Interest	3,360

Additionally, the amount of budgeted revenue for property tax did not match budgeted revenue on for TC-693 as required by state law.

RECOMMENDATION

We recommend that the City monitor its budget more closely to ensure that budgeted amounts are not exceeded. If necessary, budget amendments should be made after proper public hearings. Form TC-693 should be filed as quickly as feasible once the City receives the necessary information.

STATUS

See current year findings.

FINDING - DEFICIT FUND BALANCE

The following funds had a deficit fund balance as of June 30, 2005:

Special Revenue (RDA)	\$30,159
Capital Projects Fund	\$15,763

State law prohibits deficit equity balances.

RECOMMENDATION

The City should also closely monitor the expenditures in these funds for the current year to ensure that the fund's deficit equity balance is reversed. One possible solution is to make transfers from the general fund for projects expected.

STATUS

See current year findings.

CITY OF FAIRVIEW, UTAH
BOND COMPLIANCE
JUNE 30, 2006

CITY OF FAIRVIEW, UTAH
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LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON BOND COMPLIANCE

October 6, 2006

Honorable Mayor and
Members of the City Council
City of Fairview, Utah

Mayor and Council Members:

We have audited the financial statements of the City of Fairview, Utah, for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. As part of our audit, we reviewed your compliance with the requirements of your bond issues.

Our review revealed the following areas of nonconformance with the requirements of bonds:

The 2000 Water Revenue Bond covenants require that certain amounts be deposited into reserve accounts each month until those accounts reach \$38,000 each. The total in these funds was \$55,922 as of June 30, 2006.

Series A: \$520 per month until the balance reaches \$38,000.
Series B: \$3,154 per month until the balance reaches \$38,000.

The sewer fund does not meet the 125% net revenue test (see page 4.)

Based on our review, we are not aware of any areas of nonconformance other than those noted above.

Larson & Company
Certified Public Accountants

**CITY OF FAIRVIEW, UTAH
INSURANCE COVERAGE
YEAR ENDED JUNE 30, 2006**

<u>Type of Coverage</u>	<u>Amount</u>
Comprehensive General Liability: (Including Public Officials Errors and Omissions)	\$2,000,000
Auto Liability	2,000,000
Property Coverage:	
Accidental Electric/Mechanical Failure	2,589,600
Buildings	2,254,800
Contents	334,800
Contractors Equipment	60,000
Equipment in the Open	260,000
Auto PD Coverage	388,313
Workman's Compensation	Statutory
Fidelity Bonds:	
Mayor	Cox 1,000
Council Members:	Benson 1,000
	Hansen 1,000
	Welch 1,000
	Anderson 1,000
	Cox 1,000
Justice Court Judge	Peterson 1,000
Marshal	Cheney 1,000
City Treasurer	Tucker 250,000
City Recorder	Anderson 1,000

**FAIRVIEW CITY
SYSTEM CONNECTIONS AND RATES
YEAR ENDED JUNE 30, 2006**

Water Connections	583
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Water Rates

First 8,000 gallons:	
Within City limits	\$25.00
Outside City limits	34.50
Each additional 1,000 gallons from 8,000 to 30,000	\$1.50
Each additional 1,000 gallons from 30,000 to 50,000	\$2.00
Each additional 1,000 gallons from 50,000 to 100,000	\$2.50
Each additional 1,000 gallons over 100,000	\$3.00

Sewer connections	531
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Sewer Rates

1.0 Equivelant Residential Usage (ERU)	\$37.50
1.6 ERU	\$60.00
1.8 ERU	\$67.50
2.3 ERU	\$86.25
2.5 ERU	\$93.75
2.7 ERU	\$101.25
5.5 ERU	\$206.25
7.7 ERU	\$288.75

FAIRVIEW CITY
WATER AND SEWER FUND REVENUE REQUIREMENT
YEAR ENDED JUNE 30, 2006

Water Fund:

Operating Revenues - (Including Interest)		\$199,016
Operating Expenses - (Excluding Depreciation)		<u>117,940</u>
Adjusted Operating Income		81,076
Debt Service for Fiscal Year 2006:		
Principal - 2000 Series A Bond	19,000.00	
- 2000 Series B Bond	6,500.15	
Interest - 2000 Series A Bond	-	
- 2000 Series B Bond	<u>25,035.85</u>	
	50,536.00	
Total Debt Service Requirement 125%		<u>63,170</u>
Revenues in Excess of Bond Requirement		<u><u>\$17,906</u></u>

Sewer Fund:

Operating Revenues - (Including Interest)		\$195,449
Operating Expenses - (Excluding Depreciation)		<u>172,612</u>
Adjusted Operating Income		22,837
Debt Service for Fiscal Year 2006:		
Principal - 2004 Series A Bond	65,000	
- 2004 Series B Bond	33,000	
- 2004 Series C Bond	1,163	
- 2004 Series D Bond	388	
Interest - 2000 Series A Bond	5,467	
- 2000 Series B Bond	<u>1,822</u>	
	106,840	
Total Debt Service Requirement 125%		<u>133,550</u>
Revenues in Excess of Bond Requirement		<u><u>(\$110,713)</u></u>

FAIR VIEW CITY

85 South State P.O. Box 97
Fairview, Utah 84629

Phone (435) 427-3858

Fax (435) 427-3275

February 11, 2007

MacRay Curtis, CPA
Director, Local Government Division
Office of the State Auditor
P.O. Box 142310
Salt Lake City, Utah 84114-2310

Dear Mr. Curtis:

In response to your letter of January 29, 2007, wherein you request a corrective action plan to address the deficit fund balance in Fairview City's capital projects fund, we advise you of the following action which the City is undertaking:

On Tuesday, February 20, 2007, the City will have hearings on a revised budget for the year ending June 30, 2007. Part of that budget amendment will be to transfer \$7,091 from the general fund to the capital projects fund in order to clear the deficit in the capital projects fund.

Should you require further information on this plan, please contact Jan Andersen at 435-427-3858.

Thank you for your help.

Sincerely,



Jan Anderson
Fairview City Recorder